



Office of Internal Audit Monthly Internal Control Tip

Gain an understanding of how occupational fraud occurs.

A key element in preventing fraud from occurring within any organization is to understand why people commit fraud. The three factors that cause someone to commit fraudulent activity include financial pressure, opportunity, and rationalization. When these three components, known as the fraud triangle, are present at the same time there is an increased risk that fraud may occur.



Financial Pressure - This is usually the most dominate component of the fraud triangle. Financial pressure is typically the incentive for committing fraud. The pressure may be caused by an inability to meet financial obligations (i.e. medical bills) or an expensive addiction (i.e. gambling or drug use).

Opportunity - This component is the most controllable for an organization. The opportunity to commit fraud occurs when individuals see weaknesses within the internal control structure. Businesses can drastically reduce the opportunity to commit fraud by having effective preventive and detective controls. For more information on preventive and detective controls click the links below.

[Preventive Controls](#)

[Detective Controls](#)

Rationalization - This component explains how fraudsters justify their behavior. Many fraudsters believe they are just “borrowing” money, have a genuine reason for committing fraud, or believe that the organization will not miss the assets they take. Organizations can combat this behavior by setting a strong tone from management, adopting ethics and conduct policies, and having a strong reaction to potential fraudulent activities.

If you ever have a concern about fraudulent activity, don’t keep it to yourself! Discuss it with the appropriate supervisory personnel. Or if you prefer to remain anonymous, you may report the activity through the Louisville Metro Ethics Tipline.

Via Telephone: 1-888-226-2264

Via Online Reporting: [Louisville Metro Government’s Web Reporting System](#)

This tip is brought to you by the Office of Internal Audit. Previous Monthly Internal Control Tips can be found on the Office of Internal Audit’s webpage, located [here](#).